



COMPTROLLER

UNDER SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-1100

AUG 11 2009

MEMORANDUM FOR SECRETARY OF THE ARMY
SECRETARY OF THE NAVY
SECRETARY OF THE AIR FORCE
UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE FOR PERSONNEL
AND READINESS
DEPUTY UNDER SECRETARY OF DEFENSE
(INSTALLATIONS AND ENVIRONMENT)
ASSISTANT DEPUTY CHIEF MANAGEMENT OFFICER
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTOR, TRICARE MANAGEMENT ACTIVITY

Subject: Priorities for Improving Financial Information and Processes and Achieving
Audit Readiness

This memorandum outlines the priorities the Department of Defense (DoD) will follow with regard to improving its financial information and processes and for achieving audit readiness.

Background:

The Chief Financial Officers (CFO) Act of 1990, along with subsequent legislation, requires that federal agencies produce auditable financial statements. The first and most important step in this process requires improving financial information to make it more useful and reliable for managers. Unqualified audit opinions are one result of this effort and serve useful purposes. They verify improvements in information and processes and provide independent reassurance to the public that DoD is a good steward of their tax dollars.

In recent years, the DoD has made progress toward improving financial information and processes supporting auditability. For example, the Army Corps of Engineers improved its financial information and achieved an unqualified audit opinion in 2008, and the United States Marine Corps is close to being ready for audit of its Statement of Budgetary Resources.

However, many of the hardest problems remain unresolved, including implementing compliant systems and valuing our significant investment in property and

equipment. The remaining tasks will be daunting both because of the Department's size and complexity and because of the need to involve many functional communities that have pressing operational and management commitments. Further, some of the information required for a formal audit – including valuations of assets – is of limited use to DoD managers.

Priorities:

In order to focus limited resources in the most effective manner, I am directing that DoD pursue specific priorities as follows with regard to improving financial information and processes supporting audit readiness.

- In compliance with the law, the DoD Components will continue to work toward financial improvements that permit all their financial statements to receive unqualified audit opinions. DoD will also continue to place its primary emphasis on improving financial information and processes so that the information is more useful to managers. Successful audits will be one result of these improvements.
- DoD Components will focus first on improving information and processes supporting auditable statements for the financial information that is most often used to manage the Department. Because budgetary information is used widely and regularly for management, DoD will place the highest priority on improving its budgetary information and processes. That will eventually lead to unqualified opinions on the Statements of Budgetary Resources. A secondary goal will be to verify the existence and completeness of mission critical assets (that is, verifying that records accurately capture the number of each type of weapon system, real property, inventory, and operating materials and supplies). DoD Components will place a lower priority on valuing assets and on improving other information on their balance sheets but may continue to work in these areas.
- DoD Components are directed to adjust their current plans in August 2009 for improving financial information and processes and achieving successful audits to focus first on their Statements of Budgetary Resources. Then, focus on existence and completeness of mission critical assets. Once DoD Components have improved information and achieved successful audits in these higher priority areas, they may increase the priority placed on asset valuation and other balance sheet items.

While the financial management community is the leading advocate for this initiative, efforts to improve financial information must involve many functional communities and the Chief Management Officers who broadly direct business operations. Please distribute this memorandum widely to all those in your organization who are

responsible for improving financial information and processes and for achieving audit readiness.

My point of contact for this action is Ms. Radha Sekar. She may be reached by phone at (703) 697-3200 or by email at radha.sekar@osd.mil.

A handwritten signature in cursive script that reads "Robert F. Hale".

Robert F. Hale

Cc:
DoDIG